

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Financial Statements**

**Manistee-Benzie Community  
Mental Health Services**

**Manistee, Michigan**

**September 30, 2007**



Manistee-Benzie Community Mental Health Services  
Table of Contents  
September 30, 2006

**Independent Auditor's Report**

**Management's Discussion and Analysis** I - VI

**Basic Financial Statements:**

Government-wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
--	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
---	---

Combined Statement of Net Assets – Proprietary Funds	7
--	---

Combined Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	8
--	---

Combined Statement of Cash Flows – Proprietary Funds	9
--	---

Notes to the Financial Statements	10 - 23
-----------------------------------	---------

**Required Supplemental Information:**

Budgetary Comparison Schedules	24
--------------------------------	----

**Other Supplemental Information:**

Individual Fund Statements:

General Fund – Statement of Expenditures	25 - 26
--	---------

Combining Fund Financial Statements – Proprietary Funds	27 - 29
---	---------

**Government Auditing Standards Audit Report** 30 - 32



## **INDEPENDENT AUDITOR'S REPORT**

Manistee-Benzie Community Mental Health Services  
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board), as of and for the year ended September 30, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Board as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2008 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, PC*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 8, 2008

## **MANAGEMENT'S DISCUSSION and ANALYSIS**



Manistee-Benzie Community Mental Health Services  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

The management of Manistee-Benzie Community Mental Health Services presents the following overview and analysis of the financial activities during the past year. Manistee-Benzie Community Mental Health Services was organized under the Urban Cooperation Act between the Board of Commissioners of Manistee County and Benzie County in 1992.

This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

**Overview of Financial Statements:**

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

Fund financial statements offer a series of statements that focus on the major governmental funds. For Manistee-Benzie Community Mental Health Services, the major funds consist of the following funds: General, Building, Health, and Motor Pool. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements.

Notes to Financial Statements: The Notes to the Financial Statements, which immediately follow the Financial Statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the Financial Statements.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which required a minimum of 20,000 or more Medicaid covered lives. Manistee-Benzie Community Mental Health Services, which currently has approximately 6,100 total Medicaid lives, entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Ionia County Community Mental Health, Newaygo County Community Mental Health, and Gratiot County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan. Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the eight county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with Manistee-Benzie Community Mental Health Services to provide Medicaid covered services for the counties of Manistee and Benzie. The affiliation has formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Manistee-Benzie Community Mental Health Services also holds a Managed Mental Health Supports and Services Contract with the Department of Community Health for general funds.

### **Operating and Financial Highlights**

The fiscal year 2006/2007 final budget adopted by the governing board for the general fund was Revenue of \$11,376,992 and Expenditures of \$11,746,886. The Actual compared to Budget for the general fund is presented below.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$11,524,145	\$11,376,992	\$147,153
Expenditures	\$11,541,223	\$11,746,886	\$205,663
Change in Fund Balance	(\$17,078)	(\$369,894)	\$352,816

The comparison of fiscal year 2006/2007 as compared to fiscal year 2005/2006 is presented below. These amounts are for the general fund of Manistee-Benzie Community Mental Health Services.

	<u>2006/2007</u>	<u>2005/2006</u>	<u>Difference</u>
Revenues	\$11,524,145	\$11,742,775	(\$218,630)
Expenditures	\$11,541,223	\$11,671,034	(\$129,811)



The change in revenues recognized in the general fund between the 2006 and 2007 fiscal years was a decrease of 2%. Expenditures also decreased by 1%. The decrease was a result of decreased Medicaid funding caused by the Department of Community Health freezing the Habilitation Supports Waiver (HSW) funding slots in January 2007. The HSW funding is a much higher rate than the regular per eligible per month rate.

At the end of the 2007 fiscal year Manistee-Benzie Community Mental Health Services is currently in the process of a Department of Community Health Medicaid Financial Audit. Manistee-Benzie Community Mental Health Services was notified in December 2007 that DCH will continue with a limited scope audit to review the proprietary funds of the agency to begin in mid January 2008.

*Employment Issues:* The turnover rate for Manistee-Benzie Community Mental Health Services during the past fiscal year was 5.55% compared to the Bureau of Labor Statistics published turnover rate of 39.9%.

During the fiscal year, the Manistee-Benzie Community Mental Health Services Board of Directors terminated the Executive Director's contract. Subsequently the former Executive Director sued the Board of Directors for damages and reinstatement. The lawsuit is currently still in process.

Manistee-Benzie Community Mental Health Services continues to provide employees with Health Reimbursement Accounts through its third party administrator, Lumenos. 60% of employees had positive balances within their HRAs at the mid year 2007 calendar year, the most recent completed year of the health plan. The average balance was \$1,175. Manistee-Benzie Community Mental Health Services will continue to monitor its Health Plan carefully due to the fact that there is a smaller base of employees.

*Electronic Medical Records:* Manistee-Benzie Community Mental Health Services implemented an electronic medical record system in August of 2004. During the 2007 fiscal year there were further updates of the Electronic Medical (Health) record due to ongoing regulatory requirements.

### **Funding Issues**

*Local County Match:* Due to budget cuts during the past several years Manistee-Benzie Community Mental Health Services has lost most of its ability to earn revenues that can be used to supplement the County obligation. During 2007, both Manistee and Benzie County authorized significant increases to their local match with a three year plan to be fully funded at the end of that time.

State General Funds: Manistee-Benzie Community Mental Health Services continues to receive the lowest per capita funding in relationship to county residents at or below the 200% poverty level in the entire state. It is primarily this population that are indigent and require General Funds to cover the cost of services required under the Michigan Mental Health Code (PA 258). An appeal for reconsideration of the Manistee-Benzie Community Mental Health Services' allocation of General Funds was made to DCH and no increase was granted. Manistee-Benzie Community Mental Health Services was told by DCH staff in 2006 to use its unrestricted local fund balance to cover costs of services that would otherwise (in other Counties) be covered with State General Funds. The unrestricted local fund balance is currently at a level recommended by recent audits to be available for emergency shortfalls or other financial emergencies. The majority of the General Funds are currently being used to pay for Medicaid spend downs, indigent local psychiatric hospital services, State Facility services, jail services, and to supplement inadequate funding for MI Child, the Adult Benefit Waiver, and the Children's Waiver. During this current fiscal year the Board of Directors approved use of the fund balance to maintain current service needs.

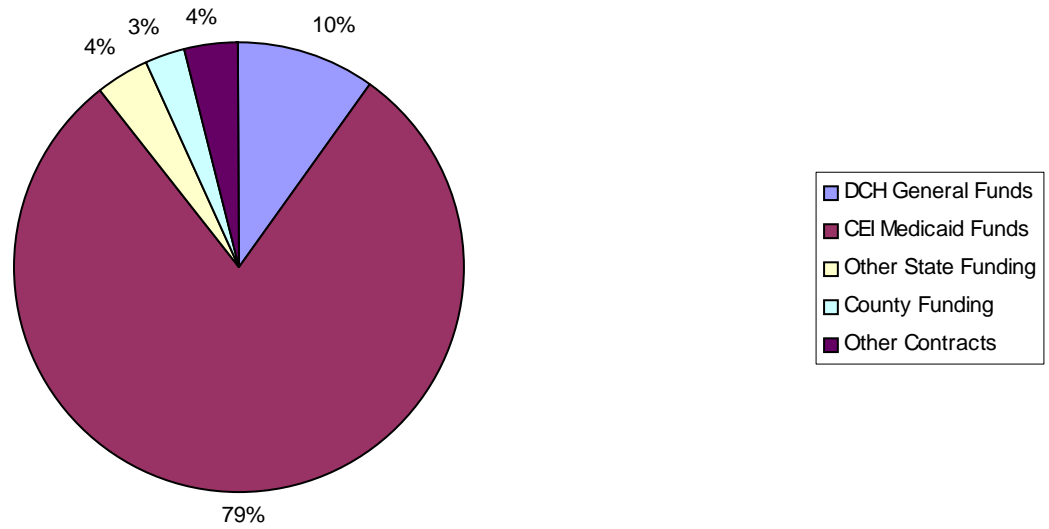
Medicaid Funding Subcontract: For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period ended September 30, 2005. The new funding formula calculated within the affiliation by the PIHP, resulted in \$2,335,000 less Medicaid funds for Manistee-Benzie Community Mental Health Services for the 2006 fiscal year. In anticipation of the funding reduction for the 2006 fiscal year Manistee-Benzie Community Mental Health Services reviewed programs and services, and left several vacant positions unfilled. As part of the overall budget reduction the PIHP's level of care guidelines were adopted. In addition, the entire Manistee-Benzie Community Mental Health Services' operations service structure was revamped based on the PIHP service model. Under the umbrella of long-term and short-term care, this model includes more of a focus on Crisis Management as opposed to traditional outpatient clinical services. This new model also includes a more flexible staffing model, which enabled us to better move resources to where there is the most need.

Using the new service model, Substance Abuse services to persons who were not severely and persistently mentally ill were eliminated, as that program had required substantial use of local funds. Other services such as Community Living Supports and Supported Employment also were reduced. Reductions were based on analysis of appropriate service levels per client diagnosis.

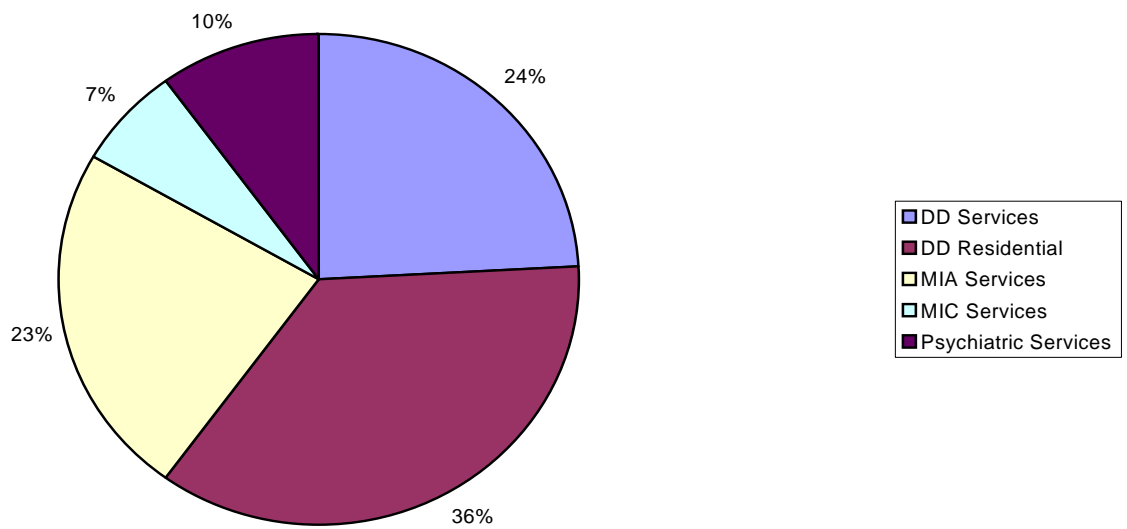
Thirty-six full-time and part-time staff positions were cut as a result of the budget reductions, including staff from all areas of the agency. In addition to staff position reductions, a variety of other steps were taken to lessen the impact on services to consumers. While some areas of consumer service saw service unit decreases, such as community living supports, skill building, substance abuse, and supported employment, other areas, such as respite and client service management saw increases, and other areas such as prevention, ACT, homebased, residential, and supports coordination services were equal to the prior year.

*Funding Sources:* The Medicaid Managed Care Subcontract with the PIHP, Clinton Eaton Ingham CMH, represents 79% of the total revenue, while State Contracts with the Department of Community Health represent 14%. County appropriations are 3% of total revenue, and the remaining 4% is from miscellaneous local contracts, interest income, and third party charge revenue.

**Sources of Funding Fiscal Year 2007**



**Use of Funding Fiscal Year 2007**



# **BASIC FINANCIAL STATEMENTS - GOVERNMENT WIDE FINANCIAL STATEMENTS**



Manistee-Benzie Community Mental Health Services  
Statement of Net Assets  
September 30, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$3,889,786	\$4,017,817
Accounts receivable, net	9,314	167,390
Due from other governmental units	358,044	180,312
Prepaid expenses	453,972	137,413
Total current assets	<u>4,711,116</u>	<u>4,502,932</u>
Noncurrent assets		
Capital assets - depreciable, net	564,235	1,129,289
Capital assets - land	115,200	123,000
Total noncurrent assets	<u>679,435</u>	<u>1,252,289</u>
Total assets	<u>5,390,551</u>	<u>5,755,221</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	369,194	450,049
Accrued liabilities	70,629	158,213
Accrued payroll and related liabilities	244,194	228,810
Due to other governmental units	42,887	98,924
Total current liabilities	<u>726,904</u>	<u>935,996</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	679,435	1,252,289
Unrestricted	<u>3,984,212</u>	<u>3,566,936</u>
Total net assets	<u>\$4,663,647</u>	<u>\$4,819,225</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Statement of Activities  
For The Year Ended September 30, 2007, With Comparative Data

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2006
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$11,521,648</u>	<u>\$9,542,608</u>	<u>\$1,794,253</u>	(\$184,787)	(\$51,937)
General revenues					
Unrestricted investment earnings				187,284	146,770
Restricted investment earnings				2,528	2,116
Gain (Loss) on disposal of capital assets				(118,920)	1,500
Internal service fund revenues, net of charges to the general fund				<u>51,587</u>	<u>77,712</u>
Total general revenues and contributions				<u>122,479</u>	<u>228,098</u>
Change in net assets				(62,308)	176,161
Net assets - beginning of year				4,819,225	4,643,064
Prior period adjustment				<u>(93,270)</u>	<u>-</u>
Net assets - end of year				<u>\$4,663,647</u>	<u>\$4,819,225</u>

See Accompanying Notes to Financial Statements

## **FUND FINANCIAL STATEMENTS**





Manistee-Benzie Community Mental Health Services  
Balance Sheet  
Governmental Funds  
September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$3,822,612	\$3,930,849
Accounts receivable, net	9,314	167,390
Due from other governmental units	358,044	180,312
Prepaid expenses	164,068	122,257
Total assets	<u>\$4,354,038</u>	<u>\$4,400,808</u>
<b>Liabilities and Fund Equity</b>		
<b>Liabilities</b>		
Accounts payable	\$369,194	\$450,049
Accrued liabilities	40,629	76,414
Accrued payroll and related liabilities	244,194	228,810
Due to other governmental units	42,887	98,924
Due to other funds	915,899	695,028
Total liabilities	<u>1,612,803</u>	<u>1,549,225</u>
<b>Fund equity</b>		
Reserved for prepaid expenditures	164,068	122,257
Unreserved	<u>2,577,167</u>	<u>2,729,326</u>
Total fund equity	<u>2,741,235</u>	<u>2,851,583</u>
Total liabilities and fund equity	<u>\$4,354,038</u>	<u>\$4,400,808</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For The Year Ended September 30, 2007

Total fund balance - governmental funds	\$2,741,235
---	-------------

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore, are not reported in the general fund.

Add:        capital assets	603,043
Deduct:   accumulated depreciation	(508,839)

Internal service funds are used by management to charge the costs  
of certain activities, such as vehicle operations, building usage,  
and health benefits to individual funds. The assets and liabilities  
of the internal service fund are included in the governmental  
activities in the statement of net assets.

<u>1,828,208</u>
------------------

Net assets of governmental activities

<u><u>\$4,663,647</u></u>
---------------------------

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For The Years Ended September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>REVENUES</b>		
State Grants		
Department of Community Health Contract		
general fund formula and categorical	\$1,270,744	\$1,412,416
Other State grants	9,824	10,307
Total State grants	<u>1,280,568</u>	<u>1,422,723</u>
Federal grants	<u>194,311</u>	<u>232,447</u>
Contributions - local units		
County appropriations	<u>298,951</u>	<u>287,273</u>
Charges for services		
Medicaid - CEI CMH contract	9,121,025	9,171,119
Medicaid - other	68,717	105,786
Client and third party pay	89,980	69,931
Other contract revenue	262,886	261,927
Total charges for services	<u>9,542,608</u>	<u>9,608,763</u>
Interest and rents		
Interest	<u>187,284</u>	<u>146,770</u>
Other revenue	<u>20,423</u>	<u>44,799</u>
Total revenues	11,524,145	11,742,775
<b>EXPENDITURES</b>		
Health & Welfare - Mental Health		
Personnel costs	5,538,881	5,555,655
Operating expenditures	<u>6,002,342</u>	<u>6,115,379</u>
Total expenditures	<u>11,541,223</u>	<u>11,671,034</u>
Excess of revenues over expenditures	(17,078)	71,741
Fund balance, beginning of year	2,851,583	2,779,842
Prior period adjustment	<u>(93,270)</u>	<u>-</u>
Fund balance, end of year	<u>\$2,741,235</u>	<u>\$2,851,583</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For The Year Ended September 30, 2007

Net change in fund balances - total governmental funds	(\$17,078)
--	------------

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Deduct: depreciation expense	(62,134)
------------------------------	----------

Internal service funds are used by management to charge the costs  
of certain activities, such as vehicle operations, building usage, and health  
benefits, to the general fund. The net revenue (expense) of certain internal  
service funds is reported with governmental activities.

	<u>16,904</u>
--	---------------

Change in net assets of governmental activities	<u><u>(\$62,308)</u></u>
---	--------------------------

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combined Statement of Net Assets  
Proprietary Funds  
September 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$67,174	\$86,968
Due from other funds	915,899	695,028
Prepaid expenses	289,904	15,156
Total current assets	1,272,977	797,152
Noncurrent assets		
Capital assets - depreciable, net	470,031	972,951
Capital assets - land	115,200	123,000
Total noncurrent assets	585,231	1,095,951
Total assets	<u>\$1,858,208</u>	<u>\$1,893,103</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Current liabilities		
Accrued liabilities	\$30,000	\$81,799
Total current liabilities	30,000	81,799
Net assets		
Invested in capital assets, net of related debt	585,231	1,095,951
Unreserved	1,242,977	715,353
Total net assets	1,828,208	1,811,304
Total liabilities and net assets	<u>\$1,858,208</u>	<u>\$1,893,103</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combined Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For The Years Ended September 30, 2007 and 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
Operating revenues		
Charges for services and rent	\$1,282,669	\$1,513,664
Operating expenses		
Health claims	929,001	1,081,087
Vehicle expense	33,713	34,090
Depreciation	129,929	169,389
Maintenance	22,584	28,182
Insurance	30,439	26,355
Other	3,707	3,670
Total operating expenses	<u>1,149,373</u>	<u>1,342,773</u>
Operating income (loss)	133,296	170,891
Non-operating revenues (expenses)		
Interest income	2,528	2,116
Interest expenses	-	(13,102)
Gain/(loss) on sale of capital assets	<u>(118,920)</u>	<u>1,500</u>
Total non-operating expense	<u>(116,392)</u>	<u>(9,486)</u>
Excess of revenues over expenditures	16,904	161,405
Net assets, beginning of year	<u>1,811,304</u>	<u>1,649,899</u>
Net assets, end of year	<u><u>\$1,828,208</u></u>	<u><u>\$1,811,304</u></u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combined Statement of Cash Flows  
Proprietary Funds  
For The Year Ended September 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Cash flows from operating activities		
Receipts from interfund services provided	\$1,021,057	\$1,369,957
Receipts from others	40,741	49,711
Payments for interfund services	-	(43,579)
Payment to suppliers	(1,073,727)	(1,275,092)
Net cash provided (used) by operating activities	(11,929)	100,997
Cash flows from capital and related financing activities		
Principal paid on capital debt	-	(143,084)
Interest paid on capital debt	-	(13,102)
Proceeds from sales of capital assets	14,315	1,500
Purchase of capital assets	(24,708)	(8,927)
Net cash provided (used) by capital and related financing activities	(10,393)	(163,613)
Cash flows from investing activities		
Proceeds from interest earnings	2,528	2,116
Net cash provided (used) by investing activities	2,528	2,116
Net increase (decrease) in cash and cash equivalents	(19,794)	(60,500)
Cash and cash equivalents, beginning of year	86,968	147,468
Cash and cash equivalents, end of year	<u>\$67,174</u>	<u>\$86,968</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$133,296	\$170,891
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	129,929	169,389
(Increase) decrease in prepaid expenses	(2,485)	946
(Increase) decrease in due from other funds	(220,870)	(93,996)
Increase (decrease) in due to other funds	-	(43,579)
Increase (decrease) in accrued liabilities	(51,799)	3,263
Increase (decrease) in deferred revenue	-	(105,917)
Net cash provided (used) by operating activities	<u>(\$11,929)</u>	<u>\$100,997</u>
Supplemental Disclosure:		
Significant noncash transactions:		
Disposal of real-estate resulting in prepaid asset for maintenance fees:	<u>\$272,263</u>	<u>-</u>

See Accompanying Notes to Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS





Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Manistee-Benzie Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

**Reporting Entity**

The Board operates as a Community Mental Health Board under the provisions of Act 258 of the Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Manistee and Benzie Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to the general fund for vehicle operations, building operations, and insurance services. Operating expenses for internal service funds include vehicle operations, building operations, and insurance claims. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments on a cost-reimbursement basis. The Motor Pool Fund, Building Fund and Health Fund are reported as Internal Service Funds.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**Budgetary Data**

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories**

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Board are depreciated using the straight-line method over their estimated useful lives. Vehicles are depreciated using an accelerated method over their estimated useful lives. Following is a breakdown of estimated useful lives used:

Assets	Years
Computers and Office Equipment	5 - 12
Software	5 - 3
Vehicles	5
Buildings and Improvements	7 – 40
Land	Not Depreciated

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

**Deferred Revenue**

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are an example of the latter.

**MDCH Revenue**

*General Fund Revenue*

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Manistee and Benzie Counties.

*Medicaid Revenue*

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan for Medicaid-qualified services rendered to residents of Manistee and Benzie Counties. The Community Mental Health Affiliation of Mid-Michigan contracts with the MDCH to administer these Medicaid funds.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2007, the Board incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	<b>2007</b>	<b>2006</b>
Petty cash	\$475	\$825
Cash and cash equivalents	3,055,895	3,288,266
Certificates of deposit	833,416	728,726
<b>Totals</b>	<b>\$3,889,786</b>	<b>\$4,017,817</b>

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. At September 30, 2007, the carrying amount of the Board's deposits was \$3,889,311, and the bank balance was \$3,290,999. Of the bank balance, \$334,171 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

*Investments*

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2007, the Board had no such investments.

The Board's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

*Interest Rate Risk – Investments*

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Custodial Credit Risk – Investments*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Board does not have any additional policies for custodial credit risk over investments.



Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

*Credit Risk*

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

*Concentration of Credit Risk*

The Board places no limit on the amount it may invest in any one issuer.

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

<b>Governmental Unit</b>	<b>2007</b>	<b>2006</b>
Michigan Department of Community Health – OBRA Grant	\$4,322	\$5,434
Federal Block Grants	62,776	93,173
Benzie County	29,425	28,568
Manistee County	22,438	13,750
Clinton, Eaton, Ingham CMH Authority	211,931	13,229
Manistee Intermediate School District	18,750	19,000
Various Other Governmental Units	8,402	7,158
<b>Totals</b>	<b>\$358,044</b>	<b>\$180,312</b>

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

### Changes in Capital Assets

A summary of changes in the capital assets follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>ASSETS</b>				
Computers and Office Equipment	\$281,917	-	-	\$281,917
Software	321,126	-	-	321,126
Vehicles	605,709	-	(\$166,488)	439,221
Buildings and Improvements	1,669,293	\$12,508	(786,985)	894,816
Land	123,000	12,200	(20,000)	115,200
<b>Sub-totals</b>	<b>3,001,045</b>	<b>24,708</b>	<b>(973,473)</b>	<b>2,052,280</b>
<b>ACCUMULATED DEPRECIATION</b>				
Computers and Office Equipment	(219,599)	(25,365)	-	(244,964)
Software	(227,106)	(36,769)	-	(263,875)
Vehicles	(491,267)	(52,376)	162,183	(381,460)
Buildings and Improvements	(810,784)	(77,553)	405,791	(482,546)
<b>Sub-totals</b>	<b>(1,748,756)</b>	<b>(192,063)</b>	<b>567,974</b>	<b>(1,372,845)</b>
<b>Totals</b>	<b>\$1,252,289</b>	<b>(\$167,355)</b>	<b>(\$405,499)</b>	<b>\$679,435</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

### Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2007</b>	<b>2006</b>
State of Michigan – Inpatient/Residential Care	\$35,053	\$67,156
State of Michigan – Lease Expense	6,921	18,898
Clinton, Eaton, Ingham CMH Authority	-	12,870
State of Michigan – Escheats	913	-
<b>Total</b>	<b>\$42,887</b>	<b>\$98,924</b>

**NOTE 4 - OTHER INFORMATION**

**Retirement System**

*Plan Description*

The Board sponsors a Money Purchase Pension Plan (the “Plan”). The Plan is a tax-qualified defined contribution pension plan. As of January 1, 2005, the Board amended this plan effectively merging the Money Purchase Pension Plan with the Retirement Investment Plan. Employees of the Board are generally eligible to participate in the Money Purchase Pension Plan following their attainment of age 18 and completion of six months of service. Employees of the Board are eligible to participate in the Retirement Investment Plan following the completion of one hour of service. As a condition of employment, each participant must agree to contribute 6.2% of his or her compensation to the Retirement Investment Plan.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

Funding Policy

Contributions made in respect to the Money Purchase Pension Plan are considered "Base Contributions". Contributions made in respect to the Retirement Investment Plan are considered "Pick-Up" contributions. The Board contributes an amount to each participant's account equal to 7% of the participant's compensation for base contributions. The Board also contributes an amount equal to 6.2% of the participant's compensation for the pick-up contributions. As a condition of employment, each participant must agree to also contribute 6.2% of his or her compensation to the plan. Employees are fully vested in pick-up contributions at all times; however, withdrawals from the pick-up contributions are not allowed prior to termination of employment. For the year ended September 30, 2007, the Board's contribution to these plans totaled \$476,064.

**Compliance Audits**

The Board participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

**Contingent Liabilities**

Litigation

The Board is a defendant of a lawsuit in relation to a wrongful discharge of a former employee. As of the date of this report, the Board is unable to determine the probability of the outcome of the lawsuit and, therefore, no potential effect of the lawsuit is recognized in these financial statements.

**Risk Management**

Michigan Municipal Risk Management Authority

The Board is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Member's Self Insured Retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Board.

For the period July 1, 2007 through July 1, 2008, the Board's coverage limits are \$5,000,000 for liability and from \$10,000 up to \$300,000,000 for property and crime. The expense recognized by the Board for this type of risk management coverage for this time period totaled \$45,289.

Self-Insured Medical Benefits

The Board has established a self-insurance plan covering certain medical, dental and vision benefits for substantially all of its employees. An internal service fund has been established to pay benefit claims and is funded by the general fund based on projected claims. The Board maintains specific stop-loss coverage of \$40,000 per person each year.

Estimates for the liability for unpaid claims are based on actual claims in process as of the year end. Incurred, but unreported, claims are estimated by management to be insignificant.

Manistee-Benzie Community Mental Health Services  
Notes To The Financial Statements

**Change in Accounting Principal / Restatement**

The Board reports governmental fund financial statement revenues using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Effective for the year ended September 30, 2007, the Board has changed its policy for revenue recognition of client and 3<sup>rd</sup> party pay for services provided to the cash basis of accounting. The Board believes this application is more appropriate when applied to this type of revenue not only because of the difficulty in estimating amounts that will be received, but also to follow required reporting to the Michigan Department of Community Health. The effect of this change in application of accounting principal for the fiscal year ending September 30, 2007 is to reduce the receivable, accounts receivable, net, and produce a prior period adjustment of \$93,270.

## REQUIRED SUPPLEMENTAL INFORMATION



Manistee-Benzie Community Mental Health Services  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For The Year Ended September 30, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>REVENUES</b>				
State Grants				
Department of Community Health Contract general fund formula and categorical	\$1,413,201	\$1,276,482	\$1,270,744	(\$5,738)
Other State grants	10,248	10,248	9,824	(424)
Total State grants	<u>1,423,449</u>	<u>1,286,730</u>	<u>1,280,568</u>	<u>(6,162)</u>
Federal grants	<u>191,514</u>	<u>196,514</u>	<u>194,311</u>	<u>(2,203)</u>
Contributions - local units				
County appropriations	<u>298,951</u>	<u>290,951</u>	<u>298,951</u>	<u>8,000</u>
Charges for services				
Medicaid - CEI CMH contract	9,385,685	8,887,032	9,121,025	233,993
Medicaid - other	110,000	118,500	68,717	(49,783)
Client and third party pay	148,130	131,568	89,980	(41,588)
Other contract revenue	248,628	259,747	262,886	3,139
Total charges for services	<u>9,892,443</u>	<u>9,396,847</u>	<u>9,542,608</u>	<u>145,761</u>
Interest and rents				
Interest	<u>135,000</u>	<u>185,000</u>	<u>187,284</u>	<u>2,284</u>
Other revenue	<u>38,750</u>	<u>20,950</u>	<u>20,423</u>	<u>(527)</u>
Total revenues	11,980,107	11,376,992	11,524,145	147,153
<b>EXPENDITURES</b>				
Health & Welfare - Mental Health				
Personnel costs	5,786,191	5,561,659	5,538,881	22,778
Operating expenditures	<u>6,301,610</u>	<u>6,185,227</u>	<u>6,002,342</u>	<u>182,885</u>
Total expenditures	<u>12,087,801</u>	<u>11,746,886</u>	<u>11,541,223</u>	<u>205,663</u>
Excess of revenues over expenditures	(107,694)	(369,894)	(17,078)	352,816
Fund balance, beginning of year	2,851,583	2,851,583	2,851,583	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(93,270)</u>	<u>(93,270)</u>
Fund balance, end of year	<u>\$2,743,889</u>	<u>\$2,481,689</u>	<u>\$2,741,235</u>	<u>\$259,546</u>

See Accompanying Notes to Financial Statements



## **OTHER SUPPLEMENTAL INFORMATION**



Manistee-Benzie Community Mental Health Services  
Supporting Schedule of Personnel Costs  
For The Years Ending September 30, 2007 and 2006

Governmental Fund Types

General Fund

	<u>2007</u>	<u>2006</u>
<b>Personnel costs</b>		
Salaries and wages	\$3,960,502	\$4,058,984
Fringe benefits	<u>1,578,379</u>	<u>1,496,671</u>
Total personnel costs	<u><u>\$5,538,881</u></u>	<u><u>\$5,555,655</u></u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Supporting Schedule of Operating Expenditures  
For The Years Ending September 30, 2007 and 2006

Governmental Fund Types

General Fund

	<u>2007</u>	<u>2006</u>
<b>Operating expenditures</b>		
Contractual services	\$4,944,866	\$4,762,447
Client supplies	76,554	101,695
Insurance	33,627	41,914
Office and computer supplies	6,482	12,343
Operating supplies	46,231	64,030
Other	43,966	32,517
Rent	270,253	296,060
Repairs and maintenance	63,604	77,280
Small equipment purchases	43,051	208,410
Staff development and training	51,004	47,961
Telephone and utilities	142,096	129,052
Transportation	16,824	20,738
Travel	263,784	320,932
	<u>263,784</u>	<u>320,932</u>
 Total operating expenditures	 <u><u>\$6,002,342</u></u>	 <u><u>\$6,115,379</u></u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combining Statement of Net Assets  
Proprietary Funds  
September 30, 2007, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2007	2006
<b>Assets</b>					
Current assets					
Cash and cash equivalents	-	-	\$67,174	\$67,174	\$86,968
Due from other funds	\$119,152	\$318,902	477,845	915,899	695,028
Prepaid expenses	17,641	272,263	-	289,904	15,156
Total current assets	136,793	591,165	545,019	1,272,977	797,152
Noncurrent assets					
Capital assets - depreciable, net	57,761	412,270	-	470,031	972,951
Capital assets - land	-	115,200	-	115,200	123,000
Total noncurrent assets	57,761	527,470	-	585,231	1,095,951
Total assets	<u>\$194,554</u>	<u>\$1,118,635</u>	<u>\$545,019</u>	<u>\$1,858,208</u>	<u>\$1,893,103</u>
<b>Liabilities and Net Assets</b>					
Liabilities					
Current liabilities					
Accrued liabilities	-	-	\$30,000	\$30,000	\$81,799
Total current liabilities	-	-	30,000	30,000	81,799
Net assets					
Invested in capital assets, net of related debt	\$57,761	\$527,470	-	585,231	1,095,951
Unreserved	136,793	591,165	515,019	1,242,977	715,353
Total net assets	194,554	1,118,635	515,019	1,828,208	1,811,304
Total liabilities and net assets	<u>\$194,554</u>	<u>\$1,118,635</u>	<u>\$545,019</u>	<u>\$1,858,208</u>	<u>\$1,893,103</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For The Year Ended September 30, 2007, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2007	2006
Operating revenues					
Charges for services	\$125,499	-	\$1,045,498	\$1,170,997	\$1,366,216
Rent	-	\$111,672	-	111,672	147,448
Total operating revenues	125,499	111,672	1,045,498	1,282,669	1,513,664
Operating expenses					
Health claims	-	-	929,001	929,001	1,081,087
Vehicle expense	33,713	-	-	33,713	34,090
Depreciation	52,376	77,553	-	129,929	169,389
Maintenance	22,584	-	-	22,584	28,182
Insurance	30,439	-	-	30,439	26,355
Other	703	2,478	526	3,707	3,670
Total operating expenses	139,815	80,031	929,527	1,149,373	1,342,773
Operating income (loss)	(14,316)	31,641	115,971	133,296	170,891
Non-operating revenues (expense)					
Interest income	-	-	2,528	2,528	2,116
Interest expenses	-	-	-	-	(13,102)
Gain/(loss) on sale of capital assets	10,010	(128,930)	-	(118,920)	1,500
Total non-operating revenues (expense)	10,010	(128,930)	2,528	(116,392)	(9,486)
Excess of revenues over expenditures	(4,306)	(97,289)	118,499	16,904	161,405
Net assets, beginning of year	198,860	1,215,924	396,520	1,811,304	1,649,899
Net assets, end of year	\$194,554	\$1,118,635	\$515,019	\$1,828,208	\$1,811,304

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services  
Combining Statement of Cash Flows  
Proprietary Funds  
For The Year Ended September 30, 2007, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2007	2006
Cash flows from operating activities					
Receipts from interfund services provided	\$62,014	\$6,838	\$952,205	\$1,021,057	\$1,369,957
Receipts from others	13,595	27,146	-	40,741	49,711
Payments for interfund services	-	-	-	-	(43,579)
Payment to suppliers	(89,924)	(9,276)	(974,527)	(1,073,727)	(1,275,092)
Net cash provided (used) by operating activities	(14,315)	24,708	(22,322)	(11,929)	100,997
Cash flows from capital and related financing activities					
Principal paid on capital debt	-	-	-	-	(143,084)
Interest paid on capital debt	-	-	-	-	(13,102)
Proceeds from sales of capital assets	14,315	-	-	14,315	1,500
Purchase of capital assets	-	(24,708)	-	(24,708)	(8,927)
Net cash provided (used) by capital and related financing activities	14,315	(24,708)	-	(10,393)	(163,613)
Cash flows from investing activities					
Proceeds from interest earnings	-	-	2,528	2,528	2,116
Net cash provided (used) by investing activities	-	-	2,528	2,528	2,116
Net increase (decrease) in cash and cash equivalents	-	-	(19,794)	(19,794)	(60,500)
Cash and cash equivalents, beginning of year	-	-	86,968	86,968	147,468
Cash and cash equivalents, end of year	-	-	\$67,174	\$67,174	\$86,968
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	(\$14,316)	\$31,641	\$115,971	\$133,296	\$170,891
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	52,376	77,553	-	129,929	169,389
(Increase) decrease in prepaid expenses	(2,485)	-	-	(2,485)	946
(Increase) decrease in due from other funds	(49,890)	(77,687)	(93,293)	(220,870)	(93,996)
Increase (decrease) in due to other funds	-	-	-	-	(43,579)
Increase (decrease) in accrued liabilities	-	(6,799)	(45,000)	(51,799)	3,263
Increase (decrease) in deferred revenue	-	-	-	-	(105,917)
Net cash provided (used) by operating activities	(\$14,315)	\$24,708	(\$22,322)	(\$11,929)	\$100,997
Supplemental Disclosure:					
Significant noncash transactions:					
Disposal of real-estate resulting in prepaid asset for maintenance fees:	-	\$272,263	-	\$272,263	-

See Accompanying Notes to Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Manistee-Benzie Community Mental Health Services  
Manistee, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board) as of and for the year ended September 30, 2007, which collectively comprise the Board's basic financial statements and have issued our report thereon dated January 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1, is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated January 8, 2008.

Manistee-Benzie Community Mental Health Services' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Co, PC".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 8, 2008



## **Manistee-Benzie Community Mental Health Services Schedule of Findings and Responses**

### **Finding 2007-1**

#### Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Board does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

#### Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



## MANAGEMENT LETTER

Board of Directors  
Manistee-Benzie Community Mental Health Services  
Manistee, Michigan

In planning and performing our audit of the financial statements for Manistee-Benzie Community Mental Health Services for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 8, 2008, on the financial statements of Manistee-Benzie Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 8, 2008

### Bank Reconciliations

During our audit, we noted that regular bank reconciliations are being completed and have been informed that these reconciliations have been approved by a responsible official, separate from the individual actually preparing the bank reconciliation. However, no indication of such review and approval was evident on the reconciliations selected for review. Doing so would take little additional time and might even prevent time from being wasted by inadvertent review of reconciliations that had already been reviewed. We also recommend that the reconciliations be signed and dated by employees preparing them. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

### Disposal of Assets

During our audit, we noted that several vehicles were disposed of during the year. However, formal approval of these vehicle dispositions was not noted in the Board Minutes. We recommend that capital assets disposed of are properly presented to the Board of Directors and noted in the Minutes. This process will help to ensure that assets disposed of are properly accounted for and approved.

### Approval of Adjusting Journal Entries

During our audit, we noted that adjusting journal entries are not formally approved by an appropriate individual separate from the preparer. Because adjusting journal entries are a way to circumvent established internal controls, we recommend that all of these entries be reviewed for reasonableness and accuracy by an appropriate individual separate from the preparer. Once reviewed and approved, the reviewer should sign off on the related entries as an indication of approval.

### Physical Inventories of Capital Assets

The Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments,” establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

The *Depreciation and Use Allowance* section of the Circular states that physical inventories must be taken at least once every two years to ensure that assets exist and are in use (Appendix B, Section 11 h).

Management has represented to us that they conduct a physical inventory review of its capital assets on an annual basis. We recommend management continue this practice, at least once every two years, to ensure that only active, in-service capital assets are included on the Board’s financial statements. This will ensure that capital assets are properly stated and that depreciation is being calculated from a reliable listing. Such physical counts will also help detect the loss or unauthorized use of valuable property.

### Federal Block Grants

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires an annual “Single Audit” when certain federal expenditures exceed \$500,000 during any one fiscal year. A Single Audit is a term used in reference to an entity-wide audit consisting of two main parts: an audit of the basic financial statements and an audit of the entity’s major federal award programs.

Even though federal revenues are well below the \$500,000 threshold for the 2007 fiscal year, we recommend management monitor their revenue sources on a regular basis to determine which grants are subject to the Single Audit.